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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**For the fiscal year ended December 31, 2016**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**For the transition period from to  
Commission File Number 000-55409**



**QVC, Inc.**

(Exact name of Registrant as specified in its charter)

**State of Delaware**

(State or other jurisdiction of  
incorporation or organization)

**23-2414041**

(I.R.S. Employer Identification  
Number)

**1200 Wilson Drive**

**West Chester, Pennsylvania**

(Address of principal executive offices)

**19380**

(Zip Code)

Registrant's telephone number, including area code: **(484) 701-1000**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, \$0.01 par value**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐  
No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒  
(do not check if

Smaller reporting company ☐

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**PART I****Item 1. Business*****Overview***

QVC, Inc. and its subsidiaries market and sell a wide variety of consumer products primarily through live merchandise-focused televised shopping programs distributed to approximately 362 million worldwide households each day (including our joint venture in China as discussed below in further detail) and via our websites, including QVC.com, and other interactive media, such as mobile applications (unless otherwise indicated or required by the context, the terms "we," "our," "us," the "Company," and "QVC" refer to QVC, Inc. and its consolidated subsidiaries). We believe we are the global leader in television retailing and a leading multimedia retailer, with operations based in the United States ("U.S."), Germany, Japan, the United Kingdom ("U.K."), Italy and France. Additionally, we have a 49% interest in a retailing joint venture in China, which operates through a television shopping channel with an associated website. The joint venture is accounted for as an equity method investment. Our name, QVC, stands for "Quality, Value and Convenience," which is what we strive to deliver to our customers. Our operating strategy is to create a premier multimedia lifestyle brand and shopping destination for our customers, further penetrate our core customer base, generate new customers, enhance our programming distribution offerings and expand internationally to drive revenue and profitability. For the year ended December 31, 2016, approximately 93% of our worldwide shipped sales were from repeat and reactivated customers (i.e., customers who made a purchase from us during the prior twelve months and customers who previously made a purchase from us but not during the prior twelve months). In the same period, we attracted approximately 3.1 million new customers. Our global e-commerce operation comprised \$4.0 billion, or 46%, of our consolidated net revenue for the year ended December 31, 2016.

We market our products in an engaging, entertaining format primarily through merchandise-focused live television programs and interactive features on our websites and other interactive media. In the U.S., we distribute our programming live 24 hours per day, 364 days per year and present on average 770 products every week. Internationally, we distribute live programming 8 to 24 hours per day, depending on the market. We classify our products into six groups: home, beauty, apparel, jewelry, accessories and electronics. It is our product sourcing

team's mission to research and locate compelling and differentiated products from manufacturers who have sufficient scale to meet anticipated demand. We offer many QVC-exclusive products, as well as popular brand name and lesser known products available from other retailers. Many of our products are endorsed by celebrities, designers and other well-known personalities who often join our presenters to personally promote their products and provide lead-in publicity on their own television shows. We believe that our ability to demonstrate product features and present "faces and places" differentiates and defines the QVC shopping experience. We closely monitor customer demand and our product mix to remain well-positioned and relevant in popular and growing retail segments, which we believe is a significant competitive advantage relative to competitors who operate brick-and-mortar stores.

Since our inception, we have shipped over 1.95 billion packages in the U.S. alone. We operate nine distribution centers and seven call centers worldwide. In the U.S., we are able to ship approximately 91% of our orders within two days of the order placement. Globally, we are able to ship approximately 93% of our orders within two days of the order placement. In 2016, our work force of approximately 17,700 employees handled approximately 156 million customer calls, shipped approximately 183 million units globally and served approximately 13 million customers. We believe our long-term relationships with major U.S. television distributors, including cable operators (e.g., Comcast and Cox), satellite television providers (e.g., DISH Network and DIRECTV) and telecommunications companies (e.g., Verizon and AT&T (excluding DIRECTV)), provide us with broad distribution, favorable channel positioning and significant competitive advantages. We believe that our significant market share, brand awareness, outstanding customer service, repeat customer base, international reach and scalable infrastructure distinguish us from our competitors.

### ***History***

QVC was founded on June 13, 1986 by Joseph Segel. Our first U.S. live broadcast took place at 7:30 PM ET on November 24 of that year, reaching 7.6 million TV homes. Initially broadcast live from 7:30 PM ET until midnight each weekday and all day Saturdays and Sundays, the channel extended its live U.S. programming to 24 hours per day in January 1987.

In 1995, Comcast purchased a majority shareholding in QVC, taking control of the Company. In 2003, Comcast sold its majority share to Liberty Interactive Corporation ("Liberty," formerly known as Liberty Media Corporation). Please see "QVC-U.S." and "QVC-International" below for information on the development of our U.S. and international businesses.

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### ***Operating segments***

QVC has two reportable segments: QVC-U.S. and QVC-International. These segments reflect the way the Company evaluates its business performance and manages its operations. For financial information about our operating segments, please refer to note 15 of our audited consolidated financial statements, as well as to Item 7.

"Management's Discussion and Analysis of Financial Condition and Results of Operations."

### ***QVC-U.S.***

Our live televised shopping programs are distributed nationally, 24 hours per day, 364 days per year, to approximately 104 million television households. We distribute our programs to approximately 96% of television households subscribing to services offered by television distributors. QVC-U.S. programming is also available on QVC.com, our U.S. website; mobile applications via streaming video; over-the-air broadcasters in 93 markets; and the Roku platform. QVC-U.S., including QVC.com, contributed \$6.1 billion, or 70.5%, of consolidated net revenue,

\$915 million of operating income and \$1.4 billion of Adjusted OIBDA (defined below) for the year ended December 31, 2016.

In March 2013, QVC-U.S. launched over-the-air broadcasting in designated U.S. markets that can be accessed by any television household with a digital antenna in such markets, regardless of whether it subscribes to a paid television service. This allows QVC-U.S. to reach new customers who previously did not have access to the program through other television platforms.

In August 2013, QVC-U.S. launched an additional channel, QVC Plus, which is being distributed through cable and satellite systems. The channel allows viewers to have access to a broader range of QVC programming options as well as more relevant programming for viewers in differing time zones.

In October 2016, QVC-U.S. launched another additional channel, Beauty iQ, which is being distributed through satellite and streaming platforms. The channel and supporting platforms are dedicated to a complete beauty shopping experience for customers.

We have established QVC-U.S. as the televised shopping leader after building a track record of outstanding quality and customer service, establishing favorable channel positioning and generating repeat business from our core customer base. We estimate our share of the U.S. televised shopping revenue in 2016, among QVC-U.S. and its two primary televised shopping competitors HSN, Inc. ("HSN") and EVINE Live Inc. ("EVINE Live") to be approximately two-thirds. We believe QVC-U.S. also compares favorably in terms of sales to general, non-television based retailers due to our extensive customer reach and efficient cost structure.

QVC.com, launched in 1996, complements our televised shopping programs by allowing consumers to purchase a wide assortment of goods offered on our televised programs, as well as other products that are available only on QVC.com. We view e-commerce (QVC.com and mobile devices) as a natural extension of our business, allowing us to stream live video and offer on-demand video segments of items recently presented live on our televised programs. QVC.com allows shoppers to browse, research, compare and perform targeted searches for products, control the order-entry process and conveniently access their QVC account. For the year ended December 31, 2016, approximately 76% of our new U.S. customers made their first purchase through QVC.com (including mobile).

The table below illustrates QVC.com's growth (including mobile) since 2014:

(in millions)	Years ended December 31,		
	2016	2015	2014
QVC.com net revenue	\$ 3,193	\$ 3,059	\$ 2,740
Total U.S. net revenue	6,120	6,257	6,055
QVC.com % of total U.S. net revenue	52.2%	48.9%	45.3%

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### ***QVC-International***

Our televised shopping programs reached approximately 137 million television households outside of the U.S., primarily in Germany, Austria, Japan, the U.K., the Republic of Ireland, Italy and France. In addition, our joint venture in China reached approximately 121 million homes. The programming created for most of these markets is also available via streaming video on our international websites and mobile applications. Our international business employs product sourcing teams who select products tailored to the interests of each local market. For the year ended December 31, 2016, our international operations generated \$2.6 billion, or 29.5%, of consolidated net revenue, \$289 million of operating income and \$405.0 million of Adjusted OIBDA (defined below), and our international websites generated \$854 million, or 33.3%, of our total international net revenue.

*QVC-Germany.* QVC-Germany went on air in December 1996 and currently broadcasts 17 hours of live programming each day and reaches approximately 41 million total households that are located in both Germany and Austria. Beyond the main channel, QVC-Germany also broadcasts pre-recorded shows on two additional channels, QVC Beauty & Style and QVC Plus, which allows viewers to access a broader range of programming options.

*QVC-Japan.* We own 60% of QVC-Japan through a venture with Mitsui & Co., LTD. QVC-Japan launched in April 2001 and currently broadcasts 24 hours of live programming each day and reaches approximately 26 million total households. In 2014, QVC-Japan launched Q-plus, which consists of infomercial programming distributed by purchasing available airtime on certain channels.

*QVC-U.K.* QVC-U.K. went on air in October 1993 and currently broadcasts 16 hours of live programming each day and reaches approximately 27 million total households that are located in both the U.K. and the Republic of Ireland. Beyond the main channel, QVC-U.K. also broadcasts pre-recorded shows on four additional channels, QVC Beauty, QVC Extra, QVC Style and QVC +1, which allows viewers to access a broader range of programming options.

*QVC-Italy.* QVC-Italy went on air in October 2010 and currently reaches approximately 24 million households. QVC-Italy broadcasts live for 17 hours each day on satellite and digital terrestrial television, and broadcasts an additional seven hours each day of recorded programming on satellite and seven hours each day of general interest programming on digital terrestrial television.

*QVC-France.* In June 2015, QVC expanded its global presence into France, launching its website on June 23, 2015 followed by the launch of television programming on August 1, 2015. QVC-France reaches approximately 19 million households in France. On weekdays, QVC-France distributes shopping programming live for eight hours per day, and distributes an additional 14 hours per day of recorded shopping programming and two hours per day of general interest programming. On weekends, QVC-France distributes shopping programming live for 12 hours per day, and distributes an additional 10 hours per day of recorded shopping programming and two hours per day of general interest programming.

*China Joint Venture.* On July 4, 2012, we entered into a joint venture with Beijing-based CNR Media Group, formerly known as China Broadcasting Corporation, a limited liability company owned by China National Radio ("CNR"), China's government-owned radio division. The joint venture, CNR Home Shopping Co., Ltd. ("CNRS"), is owned 49% by QVC and 51% by CNR through subsidiaries of each company. CNRS operates a retailing business in China through a shopping television channel with an associated website. This joint venture combines CNRS's knowledge of the digital shopping market and consumers in China with QVC's global experience and know-how in multimedia retailing. CNRS distributes live programming for 15 hours each day and recorded programming for nine hours each day. The CNRS joint venture is accounted for as an equity method investment recorded as equity in losses of investee in our consolidated statements of operations.

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### ***Adjusted Operating Income before Depreciation and Amortization ("Adjusted OIBDA")***

QVC defines Adjusted OIBDA as net revenue less cost of goods sold, operating expenses and selling, general and administrative expenses (excluding stock-based compensation). QVC's chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate the businesses and make decisions about allocating resources among the businesses. QVC believes that this is an important indicator of the operational strength and performance of the businesses, including the ability to service debt and fund capital expenditures. In addition, this measure allows QVC to view operating results, perform analytical comparisons and perform benchmarking among its businesses and identify strategies to improve performance. This

measure of performance excludes such costs as depreciation, amortization and stock-based compensation that are included in the measurement of operating income pursuant to generally accepted accounting principles in the United States of America ("U.S. GAAP" or "GAAP"). Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with U.S. GAAP.

The primary material limitations associated with the use of Adjusted OIBDA as compared to GAAP results are (i) it may not be comparable to similarly titled measures used by other companies in the industry, and (ii) it excludes financial information that some may consider important in evaluating QVC's performance. QVC compensates for these limitations by providing disclosure of the difference between Adjusted OIBDA and GAAP results, including providing a reconciliation of Adjusted OIBDA to GAAP results, to enable investors to perform their own analysis of QVC's operating results. Refer to note 15 to the consolidated financial statements for a reconciliation of Adjusted OIBDA to income before income taxes.

### ***Merchandise***

We believe that our ability to combine product and programming helps us create competitive advantages over traditional brick-and-mortar and Internet retailers. We seek to offer our customers an assortment of compelling, high-quality products. In the U.S., we present on average 770 products every week on our live televised programming, approximately 23% of which have not been presented previously to our television audience. We offer customers high-quality and brand name products marketed in a creative, informative, entertaining and engaging style. We provide a differentiated shopping experience by offering customers the opportunity to experience not only the product being sold, but also the people and places behind that product, thereby enhancing their overall shopping experience.

Our global merchandise mix is similar to that of a high-quality department store, featuring the best in: (i) home, (ii) apparel, (iii) beauty, (iv) accessories, (v) jewelry and (vi) electronics. Many of our brands are exclusive, while others are created by well-known designers. Our global sales mix is provided in the table below:

<b>Product category</b>	<b>2016</b>	<b>Years ended December 31,</b>	
		<b>2015</b>	<b>2014</b>
Home	33%	33%	32%
Apparel	19%	17%	16%
Beauty	17%	17%	17%
Accessories	13%	13%	12%
Jewelry	9%	10%	12%
Electronics	9%	10%	11%
Total	100%	100%	100%

A key difference between us and traditional brick-and-mortar retailers is that we are able to quickly adapt what merchandise we present as a direct response to what is selling and what is not. We utilize a test and re-order model to determine initial customer demand. Through constant monitoring, we manage our product offerings to maximize net revenue and fulfill current demand in large growth segments where we can gain a greater share of our customers' purchases. Our merchandising team is dedicated to consistently researching, pursuing and launching new products and brand opportunities. With a management mandate to deliver hard-to-find value, this product search group constantly pursues securing quality goods from manufacturers with enough scale to offer sufficient supply to our existing and future customers. We maintain strong relationships with our vendors, many of which find our marketing distribution channel attractive due to the showcasing and story-telling elements of our programming, the velocity of our sales and our pricing model integrity. This efficient sales/marketing strategy is mirrored on our websites.



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We purchase, or obtain on consignment, products from U.S. and foreign manufacturers and wholesalers, often on favorable terms based upon the volume of the transactions. We have attracted some of the world's most respected consumer brands as well as celebrities, entrepreneurs and designers to promote these brands. Brand leaders such as Dell, Dooney & Bourke, Dyson, Judith Ripka and Philosophy reach a broad audience while product representatives share the stories behind these brands. We have agreements with celebrities, entrepreneurs and designers such as Isaac Mizrahi, Rachael Ray and the Scott Brothers enabling us to provide entertaining and engaging programming that develops a lifestyle bond with our customers. These celebrity personalities and product representatives often provide pre-appearance publicity for their QVC products on other television shows, enhancing demand during their QVC appearances. We cross-promote between our e-commerce and mobile platform and our television programming to promote the use of each platform as a standalone entity. Our e-commerce efforts are focused on creating a community of online shoppers by translating our televised themes, personalities and shopping experience for each platform.

We do not depend on any single supplier or designer for a significant portion of our inventory purchases.

***Distribution***

We distribute our television programs, via satellite and optical fiber, to cable television and/or direct-to-home satellite system operators for retransmission to their subscribers in the U.S., Germany, Japan, the U.K., Italy, France and neighboring countries. We also transmit our television programs over digital terrestrial broadcast television to viewers throughout Italy, the U.K. and to viewers in certain geographic regions in the U.S. and Germany. In the U.S., we uplink our analog and digital programming transmissions using a third party service. Both transmissions are uplinked to protected, non-preemptible transponders on U.S. satellites. "Protected" status means that, in the event of a transponder failure, our signal will be transferred to a spare transponder or, if none is available, to a preemptible transponder located on the same satellite or, in certain cases, to a transponder on another satellite owned by the same service provider if one is available at the time of the failure. "Non-preemptible" status means that, in the event of a transponder failure, our transponders cannot be preempted in favor of a user of a failed transponder, even another user with "protected status." Our international business units each obtain uplinking services from third parties and transmit their programming to non-preemptible transponders on international satellites. Our transponder service agreements for our U.S. transponders expire at the earlier of the end of the lives of the satellites or the service agreements. The service agreements in the U.S. expire between 2019 and 2023. Our transponder service agreements for our international transponders expire between 2019 and 2024.

We continually seek to expand and enhance our television and e-commerce platforms, as well as to further our international operations and multimedia capabilities. We launched QVCHD in the U.S. in April 2008, and in May 2009, we became the first U.S. multimedia retailer to offer a native high definition ("HD") service. QVCHD is a HD simulcast of our U.S. telecast utilizing the full 16x9 screen ratio, while keeping the side panel for additional information. HD programming allows us to utilize a typically wider television screen with crisper and more colorful images to present a larger "storefront," which we believe captures the attention of channel "surfers" and engages our customers. In the U.S., QVCHD reaches approximately 80 million television households. We continue to develop and launch features to further enrich the television viewing experience.

Beyond the main live programming QVC channels, including QVCHD in the U.S., Germany and the U.K. also broadcast pre-recorded shows on additional channels that offer viewers access to a broader range of QVC programming options. These channels include QVC Plus and Beauty iQ in the U.S., QVC Beauty & Style and QVC Plus in Germany and QVC Beauty, QVC Extra, QVC Style and QVC +1 in the U.K.

***Affiliation agreements***

We enter into long-term affiliation agreements with certain of our television distributors who downlink our programming and distribute the programming to their customers. Our affiliation agreements with both U.S. and international distributors have termination dates ranging from 2017 to 2027. Our ability to continue to sell products to our customers is dependent on our ability to maintain and renew these affiliation agreements in the future. Although we are typically successful in obtaining and renewing these agreements, we do not have distribution agreements with some of the distributors that carry our programming. In total, we are currently providing programming without affiliation agreements to distributors representing approximately 10% of our U.S. distribution, and short-term, rolling 90 day letters of extension, to distributors who represent approximately 27% of our U.S. distribution. Some of our international programming may continue to be carried by distributors after the expiration dates on our affiliation agreements with them have passed.

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In return for carrying our signals, each programming distributor in the U.S. receives an allocated portion, based upon market share, of up to 5% of the net sales of merchandise sold via the television programs and from certain Internet sales to customers located in the programming distributor's service areas. Internationally, programming distributors predominately receive an agreed-upon annual fee, a monthly or yearly fee per subscriber regardless of the net sales, a variable percentage of net sales or some combination of the above arrangements.

In addition to sales-based commissions or per-subscriber fees, we also make payments to distributors primarily in the U.S. for carriage and to secure positioning within a broadcast area or within the general entertainment area on the distributor's channel line-up. We believe that a portion of our sales is attributable to purchases resulting from channel "surfing" and that a channel position near broadcast networks and more popular cable networks increases the likelihood of such purchases. As technology evolves, we will continue to monitor optimal channel placement and attempt to negotiate agreements with our distributors to maximize the viewership of our television programming.

***Demographics of customers***

We enjoy a very loyal customer base, as demonstrated by the fact that for the twelve months ended December 31, 2016, approximately 87% of our worldwide shipped sales came from repeat customers (i.e., customers who made a purchase from us during the prior twelve months), who spent an average of \$1,247 each during this period. An additional 6% of shipped sales in that period came from reactivated customers (i.e., customers who previously made a purchase from us, but not during the prior twelve months).

Customer growth was essentially flat in 2016. On a trailing twelve month basis, total consolidated customers (excluding the joint venture in China) were approximately 12.7 million which includes more than 8.1 million in the U.S. and more than 4.6 million in the International segment. We believe our core customer base represents an attractive demographic target market. Based on internal customer data, approximately 53% of our more than 8.1 million U.S. customers for the twelve months ended December 31, 2016 were women between the ages of 35 and 64.

***Order taking and fulfillment***

We strive to be prompt and efficient in order taking and fulfillment. We have two U.S. phone centers, located in San Antonio, Texas and Chesapeake, Virginia, that can direct calls from one call center to the other as volume mandates. Internationally, we also have one phone center in each of Japan, the U.K. and Italy, and two call centers in Germany. For France, order taking is handled by a third party located in Portugal. Many markets also utilize home agents to



handle calls, allowing staffing flexibility for peak hours. In addition, we utilize computerized voice response units, which handle approximately 26% of all orders taken on a worldwide basis.

In addition to taking orders from our customers through phone centers and online, we continue to expand our ordering platforms. We are expanding mobile device ordering capabilities and over the past several years have launched iPhone, iPad, Apple Watch, Android, Blackberry and Apple TV applications, a WAP (wireless application protocol) mobile website and a robust SMS (short message services) program. On a global basis, customers placed approximately 28% of all orders directly through their mobile devices in 2016.

Through our nine worldwide distribution centers, we shipped approximately 93% of our orders within two days of the order placement in 2016. Our U.S. distribution centers are located in Suffolk, Virginia; Lancaster, Pennsylvania; Rocky Mount, North Carolina; Florence, South Carolina; and Ontario, California. Our U.S. distribution centers and drop ship partners have shipped nearly 814,000 units and over 733,000 packages in a single day. We also have distribution centers in Sakura-shi, Chiba, Japan; Hückelhoven, Germany; Knowsley, U.K. and Castel San Giovanni, Italy.

We have built a scalable operating infrastructure focused on sustaining efficient, flexible and cost-effective sale and distribution of our products. Since our physical store locations are minimal, we require lower inventory levels and capital expenditures compared to traditional brick-and-mortar retailers. In recent years, we have made significant investments in our distribution centers that we believe will accommodate our foreseeable growth needs. Further, since we have no set “floor plan” and can closely manage inventory levels at our centralized warehouses, we believe we have the flexibility to analyze and react quickly to changing trends and demand by shifting programming time and product mix. Our cost structure is highly variable, which we believe allows us to consistently achieve attractive margins relative to brick-and-mortar retailers.

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Our web and mobile platforms are fully integrated with our televised programming and product distribution capabilities. Our web and mobile platform features include a live video stream of our television programming, full integration with our order fulfillment and product branding, as well as the thematic offerings and events that have become fundamental to our televised programming.

Third party carriers transport our packages from our distribution centers to our customers. In each market where we operate, we have negotiated long-term contracts with shipping companies, which in certain circumstances provide for favorable shipping rates.

### ***Competition***

We operate in a rapidly evolving and highly competitive retail business environment. Based on U.S. net revenue for the twelve months ended December 31, 2016, we are the leading television retailer in the U.S. and generate substantially more net revenue than our two closest televised shopping competitors, HSN (an entity in which Liberty had a 38% ownership interest as of December 31, 2016) and EVINE Live. Our international operations face similar competition in their respective markets, such as Shop Channel in Japan, HSE 24 in Germany and Italy, Ideal World in the U.K., and M6 Boutique in France. Additionally, we have numerous and varied competitors at the national and local levels, ranging from large department stores to specialty shops, electronic retailers, direct marketing retailers, wholesale clubs, discount retailers, infomercial retailers, Internet retailers, and mail-order and catalog companies. We also compete for access to customers and audience share with other providers of televised, online and hard copy entertainment and content. The price and availability of other programming and the conversion to digital programming platforms may unfavorably affect the placement of our programming in the channel line-ups of our

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- Liberty's dependence on our cash flow for servicing its debt and for other purposes.

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. When considering such forward-looking statements, one should keep in mind the factors described in Item 1A. "Risk Factors" and other cautionary statements contained in this Annual Report. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

#### **Item 1A. Risk Factors**

##### ***Weak economic conditions worldwide may reduce consumer demand for our products and services***

The prolonged economic uncertainty in various regions of the world in which our subsidiaries and affiliates operate could adversely affect demand for our products and services since a substantial portion of our revenue is derived from discretionary spending by individuals, which typically falls during times of economic instability. Global financial markets continue to experience disruptions, including increased volatility and diminished liquidity and credit availability. If economic and financial market conditions in the U.S. or other key markets, including China, Japan and Europe, remain uncertain, persist, or deteriorate further, our customers may respond by suspending, delaying, or reducing their discretionary spending. A suspension, delay or reduction in discretionary spending could adversely affect revenue. Accordingly, our ability to increase or maintain revenue and earnings could be adversely affected to the extent that relevant economic environments remain weak or decline. Such weak economic conditions may also inhibit our expansion into new European and other markets. We currently are unable to predict the extent of any of these potential adverse effects.

##### ***The retail business environment is subject to intense competition, and we may not be able to effectively compete for customers***

We operate in a rapidly evolving and highly competitive retail business environment. Although we are the U.S.'s largest television shopping retailer, we have numerous and varied competitors at the national and local levels, ranging from large department stores to specialty shops, electronic retailers, direct marketing retailers, wholesale clubs, discount retailers, other televised shopping retailers such as HSN and EVINE Live in the U.S., Shop Channel in Japan, HSE 24 in Germany and Italy, Ideal World in the U.K., and M6 Boutique in France, infomercial retailers, Internet retailers, and mail-order and catalog companies. Many of our current and potential competitors have greater resources, longer histories, more customers and greater brand recognition than we do. They may secure better terms from vendors, adopt more aggressive pricing, offer free or subsidized shipping and devote more resources to technology, fulfillment and marketing. Other companies also may enter into business combinations or alliances that strengthen their competitive positions. In addition, many retailers, especially online retailers with whom we compete, are increasingly offering customers aggressive shipping terms, including free or discounted expedited shipping. As these practices become more prevalent, we may experience further competitive pressures to attract customers and/or to change our shipping program.

We also compete for access to customers and audience share with other providers of televised, online and hard copy entertainment and content. Our inability to compete effectively with regard to the assortment, product price, shipping terms, shipping pricing or free shipping and quality of the merchandise we offer for sale or to keep pace with competitors in our marketing, service, location, reputation, credit availability and technologies, could have a material adverse effect.

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***Our net revenue and operating results depend on our ability to predict or respond to consumer preferences***

Our net revenue and operating results depend, in part, on our ability to predict or respond to changes in consumer preferences and fashion trends in a timely manner. We develop new retail concepts and continuously adjust our product mix in an effort to satisfy customer demands. Consumer preferences may be affected by many factors outside of our control, including responses of competitors and general economic conditions. Any sustained failure by us to identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect.

***Management's efforts to realize the anticipated synergies from Liberty's acquisition of zulily may divert management's time and attention and other resources from QVC's business.***

On October 1, 2015, Liberty acquired all of the outstanding shares of zulily. zulily is attributed to the QVC Group and we believe that its business is complementary to our Company's business. As entities under the common control of Liberty, zulily and QVC are cooperating to recognize meaningful synergies by seeking opportunities to leverage their combined scale, capabilities and customer bases to accelerate each company's sales and deliver cost savings. QVC and zulily have engaged in multiple transactions relating to sales, sourcing of merchandise, marketing initiatives, and business advisory services with the expectation that these transactions would result in various synergies including, among other things, enhanced revenues, procurement cost savings and operating efficiencies, innovation and sharing of best practices. We currently anticipate that these efforts will continue for the foreseeable future.

Achieving the anticipated benefits from these transactions will require the dedication of management and other resources, which may distract their attention from QVC's other operations. Additionally, the anticipated benefits from these transactions are subject to a number of significant challenges and uncertainties, including, whether unique corporate cultures of separate organizations will work collaboratively in an efficient and effective manner, the possibility of faulty assumptions underlying expectations regarding potential synergies, unforeseen expenses or delays and contractual limitations. Many of these challenges and uncertainties are outside of our control and any of them could result in increased costs, decreased revenue, decreased synergies and the diversion of the time and attention of management and other resources, which could have a material adverse impact on our business, financial condition and results of operations.

***Our long-term success depends in large part on our continued ability to attract new customers and retain existing customers and we may not be able to do that in a cost-effective manner***

In an effort to attract and retain customers, we engage in various merchandising and marketing initiatives, which involve the expenditure of money and resources, particularly in the case of the production and distribution of our television programming and, to a lesser but increasing extent, online advertising. We have spent, and expect to continue to spend, increasing amounts of money on, and devote greater resources to, certain of these initiatives, particularly in our continuing efforts to increasingly engage customers through online and mobile channels and to personalizing our customers' shopping experience. These initiatives, however, may not resonate with existing customers or consumers generally or may not be cost-effective. In addition, costs associated with the production and distribution of our television programming and costs associated with online marketing, including search engine marketing (primarily the purchase of relevant keywords), have increased and are likely to continue to increase in the foreseeable future and, if significant, could have a material adverse effect to the extent that they do not result in corresponding increases in net revenue.

- place us at a competitive disadvantage compared to our less leveraged competitors; and
- limit our ability to respond to business opportunities.

***We may not be able to generate sufficient cash to service our debt obligations***

Our ability to make payments on our indebtedness will depend on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

***Despite our current level of indebtedness, we may still incur substantially more indebtedness, which could exacerbate the risks associated with our existing indebtedness***

We and our subsidiaries may incur substantial additional indebtedness in the future. Our senior secured credit facility and the notes will limit, but not prohibit, us or our subsidiaries from incurring additional indebtedness. Also, our subsidiaries could incur additional indebtedness that is structurally senior to the notes or we and our subsidiaries could incur indebtedness secured by a lien on assets that do not constitute collateral, including assets of ours and our subsidiaries, and the holders of such indebtedness will have the right to be paid first from the proceeds of such assets. If we incur any additional indebtedness that ranks equally with the notes and the guarantees, the holders of that indebtedness will be entitled to share ratably with the holders of the notes and the guarantees in any proceeds distributed in connection with our insolvency, liquidation, reorganization or dissolution. This may have the effect of reducing the amount of proceeds paid to the existing note holders. In addition, existing note holders' rights to the collateral would be diluted by any increase in the indebtedness secured by this collateral. If new indebtedness is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

***Covenants in our debt agreements restrict our business in many ways***

Our senior secured credit facility and the indentures governing the notes contain various covenants that limit our ability and/or our restricted subsidiaries' ability to, among other things:

- incur or assume liens or additional debt or provide guarantees in respect of obligations of other persons;
- pay dividends or make distributions or redeem or repurchase capital stock;
- prepay, redeem or repurchase debt;
- make loans, investments and capital expenditures;

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- enter into agreements that restrict distributions from our subsidiaries;
- sell assets and capital stock of our subsidiaries;

- enter into sale and leaseback transactions;
- enter into certain transactions with affiliates;
- consolidate or merge with or into, or sell substantially all of our assets to, another person; and
- designate our subsidiaries as unrestricted subsidiaries.

In addition, our senior secured credit facility contains restrictive covenants and requires us to maintain a specified leverage ratio. The leverage ratio is defined in Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Position, Liquidity and Capital Resources - Senior Secured Credit Facility." Our ability to meet this leverage ratio test can be affected by events beyond our control, and we may be unable to meet those tests. A breach of any of these covenants could result in a default under our senior secured credit facility, which in turn could result in a default under the indentures governing the notes. Upon the occurrence of an event of default under our senior secured credit facility, the lenders could elect to declare all amounts outstanding under our senior secured credit facility to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure that indebtedness. Our senior secured credit facility, our notes and certain future indebtedness are secured by a first priority perfected lien in all shares of our capital stock. If the lenders and counterparties under our senior secured credit facility, our notes and certain future indebtedness accelerate the repayment of obligations, we may not have sufficient assets to repay such obligations. Our borrowings under our senior secured credit facility are, and are expected to continue to be, at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will also increase even though the amount borrowed remains the same, and our net income would decrease.

***Our ability to pay dividends or make other restricted payments to Liberty is subject to limited restrictions***

There are no restrictions under our bond indentures on QVC's ability to pay dividends or make other restricted payments if QVC is not in default on its senior secured notes and each of QVC's consolidated leverage ratio and QVC and zulily's combined consolidated leverage ratio would be no greater than 3.50 to 1.0. As a result, Liberty will, in many instances, be permitted to rely on QVC's cash flow for servicing Liberty's debt and for other purposes, including payments of dividends on Liberty's capital stock, if declared, or to fund acquisitions or other operational requirements of Liberty and its subsidiaries. These events may increase accumulated deficit or require QVC to borrow under the senior secured credit facility, increasing QVC's leverage and decreasing liquidity. QVC has made significant distributions to Liberty in the past. See Item 1. "Business - Liberty relationship and related party transactions."

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We own our corporate headquarters and operations center in West Chester, Pennsylvania, which consist of office space and include executive offices, television studios, showrooms, broadcast facilities and administrative offices for QVC. We also own call centers in San Antonio, Texas; Chesapeake, Virginia; Bochum and Kassel, Germany and Chiba-Shi, Japan. We own distribution centers in Lancaster, Pennsylvania; Suffolk, Virginia; Rocky Mount, North Carolina; Florence, South Carolina; Chiba, Japan and Hückelhoven, Germany. The construction of the distribution center in Ontario, California was completed in August of 2016. Refer to note 9 to the consolidated financial statements for further discussion regarding the new distribution center. Additionally, we own multi-functional buildings in Knowsley, United Kingdom; Chiba, Japan and Brugherio, Italy. In Germany we own our administrative

offices within the headquarters located in Düsseldorf, Germany which also includes leased television studios and broadcast facilities. To supplement the facilities we own, we also lease various facilities worldwide.

We believe that the duration of each lease is adequate and we do not anticipate any future problems renewing or obtaining suitable leases for our principal properties. We believe that our principal properties, whether owned or leased, are currently adequate for the purposes for which they are used and are suitably maintained for these purposes. From time to time, we consider various alternatives related to our long-term facilities needs.

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**Item 3. Legal Proceedings**

We are not a party to or subject to any material pending legal proceedings. We are parties to various claims and pending litigation as part of the normal course of business. In the opinion of management, the nature and disposition of these matters are considered routine and arising in the ordinary course of business.

**Item 4. Mine Safety Disclosures**

Not applicable.

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**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

There is no established trading market for our equity securities. There is one holder of record of our equity, Liberty QVC Holding, LLC, an indirect wholly-owned subsidiary of Liberty Interactive Corporation ("Liberty"). See also "Item 1. Business - Liberty relationship and related party transactions" related to our dividends to Liberty and note 8 to our consolidated financial statements for our debt issuance descriptions.

**Item 6. Selected Financial Data**

Omitted under the reduced disclosure format permitted by General Instruction I(2)(a) of Form 10-K.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our consolidated financial statements and the notes thereto.

***Overview***

QVC, Inc. and its consolidated subsidiaries ("QVC" or the "Company") is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs, the Internet and mobile applications.

In the United States ("U.S."), QVC's live programming is distributed via its nationally televised shopping program 24 hours per day, 364 days per year ("QVC-U.S."). Internationally, QVC's program services are based in Germany, the United Kingdom ("U.K."), Italy, Japan and France.